

## Conclusion

- 7.1 In concluding the first stage of its inquiry into the prospect of increasing value-adding to Australian raw materials, the Committee considers that a further study of this issue is timely. It offers significant potential for enhancing national income and welfare.
- 7.2 There is already strong evidence that value-adding of raw materials has been contributing significantly to this objective. It appears that raw materials processing in Australia accounted for some \$45.2 billion of industry value-added in 1998-99, which is slightly more than the combined outputs of the agriculture, forestry and fishing and the mining sectors.
- 7.3 Raw materials processing was also responsible for the employment of some 6.6 per cent of the workforce in 1998-99 (again more than the two primary sectors combined) and for export growth significantly greater than for the primary products that form the basis of this processing. Exports of processed raw materials have also been increasing at a rate well in excess of industry output and there is a strong trend towards processed merchandise exports (particularly elaborately transformed manufactures).
- 7.4 When compared to other countries, it is clear that the Australian economy relies more heavily on its primary industries than do some similarly developed economies and that it does not have the same emphasis on manufacturing industry. This result, however, is not altogether surprising given Australia's strong resource base and sizeable landmass.
- 7.5 Despite the relatively modest performance of the manufacturing sector generally in Australia, a comparison of the relative size of the industries that make up the sector reveals that most of them have performed comparatively well. The relatively small size of Australia's manufacturing sector is primarily due to Australia's limited involvement in producing machinery and equipment. Australia's relatively small chemicals, coal

and petroleum, and textiles, clothing and footwear industries have also influenced this result.

- 7.6 Australia, on the other hand, appears to be performing relatively well in most areas of raw materials processing, particularly those areas involved in the processing of minerals. Indeed, the basic metals products industry accounts for a larger proportion of the nation's output than in any of the other countries examined.
- 7.7 There is little doubt that much of the success Australia has achieved in areas such as this is due to its strong raw materials base. A number of other factors, however, can also play an important part in contributing to Australia's relative competitiveness in this area. A strong primary industry base does not of itself ensure that Australia's comparative advantage in the production of raw materials will carry through to the processed products.
- 7.8 To successfully process its abundant raw material inputs, Australia also needs access to a range of other inputs, such as keenly priced energy, appropriate infrastructure and a skilled workforce. It can also benefit from factors such as a stable political environment and an effective economic system and investment climate.
- 7.9 There is strong evidence to suggest that Australia has many of these strengths and that it is likely to be a competitive processor of a range of raw materials, if the right economic environment is provided to encourage this investment. Indeed, Australia's success in this area to date already provides evidence of this potential.
- 7.10 While there is a range of actions the country can take to encourage further investment in this area, with the aim of enhancing the country's national welfare, these options are not without their risks. Measures aimed at encouraging growth in specific industries, for example, can often have wider national implications that more than offset the benefits of encouraging these industries.
- 7.11 Further value-adding is not necessarily synonymous with enhanced national welfare. In an extreme case, the value-adding activity can cost the producer more than the additional price achieved. In other cases, the assistance required to ensure the investment takes place can incur costs in other parts of the economy which exceed the additional value derived.
- 7.12 To overcome these concerns, the Committee suggests that any Government action aimed at encouraging further raw materials processing in Australia should focus on encouraging industries that have a comparative advantage in their field. Market forces should primarily drive the development of such projects.

- 7.13 To do otherwise will mean that resources may be attracted away from competitive industries into areas where they will be less productive.
- 7.14 A country cannot expect to process all its raw materials. It will not have a comparative advantage across the full spectrum of raw materials processing areas and will maximise its national income if it concentrates on those things that it can do best.
- 7.15 Although this approach appears to limit the options open to the Government in encouraging further value-adding, there is evidence that there is still much that it can do. When the Industry Commission last reviewed the potential of the minerals processing industry, for example, it indicated that the full potential of the industry had not been realised.<sup>1</sup>
- 7.16 The Commission suggested that the main reason for this under-performance was that mining and early-stage mineral processing activity in Australia was hindered by numerous impediments.
- 7.17 By focussing on removing impediments and on ensuring the Australian economy operates in an efficient and effective manner, the Government can do much to reduce business costs. This in turn can encourage enterprises to draw on the economy's underlying advantages and to undertake further investment in resource processing, potentially adding to the community's overall welfare.
- 7.18 The evidence to this inquiry identified a range of possible actions that can be used to encourage competitive, outwardly oriented processing industries in Australia. As discussed in Chapter 6, these actions range from providing a conducive economic environment, minimising sovereign risk and freeing up the movement in international trade through to the removal of a series of specific impediments.
- 7.19 The realisation of Australia's full raw materials processing potential, for example, requires a sound macroeconomic environment that is conducive to business and facilitates change. A stable and efficient economic environment can play a very important part in enhancing the viability of local industry and in contributing to a competitive advantage that allows Australian industry to successfully compete on world markets.
- 7.20 Another factor that can work to enhance the competitiveness of Australian industry is access to competitive inputs. To this end, well-focussed microeconomic reform can enhance the economic viability of potential developments as can enhanced research and development activity, productive labour relations and greater access to a skilled workforce.

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1 Industry Commission, *Mining and Minerals Processing in Australia*, February 1991, p. 169.

- 7.21 Significant gains can also be achieved through strong action aimed at lowering world trade barriers and through providing a consistent and balanced regulatory framework.
- 7.22 The option that received the most attention during the inquiry, however, is the removal of a range of impediments to investment in raw materials processing. The main impediments identified include:
- The environmental regulations placed on business;
  - Resource security and land access concerns;
  - An insufficiently competitive fiscal regime;
  - Some impacts of globalisation;
  - Inappropriate and inefficient Government regulations; and
  - Inadequate access to efficient infrastructure.
- 7.23 While the Committee did not necessarily agree with all the suggestions proposed by witnesses to overcome these difficulties, it agrees that there is a need for sound and robust action in many of these areas if Australia is to maximise the benefits it receives from a fully developed raw materials processing industry.
- 7.24 The Committee will therefore use the opportunity provided by the next stage of its inquiry to investigate these and any other suggestions in more detail.